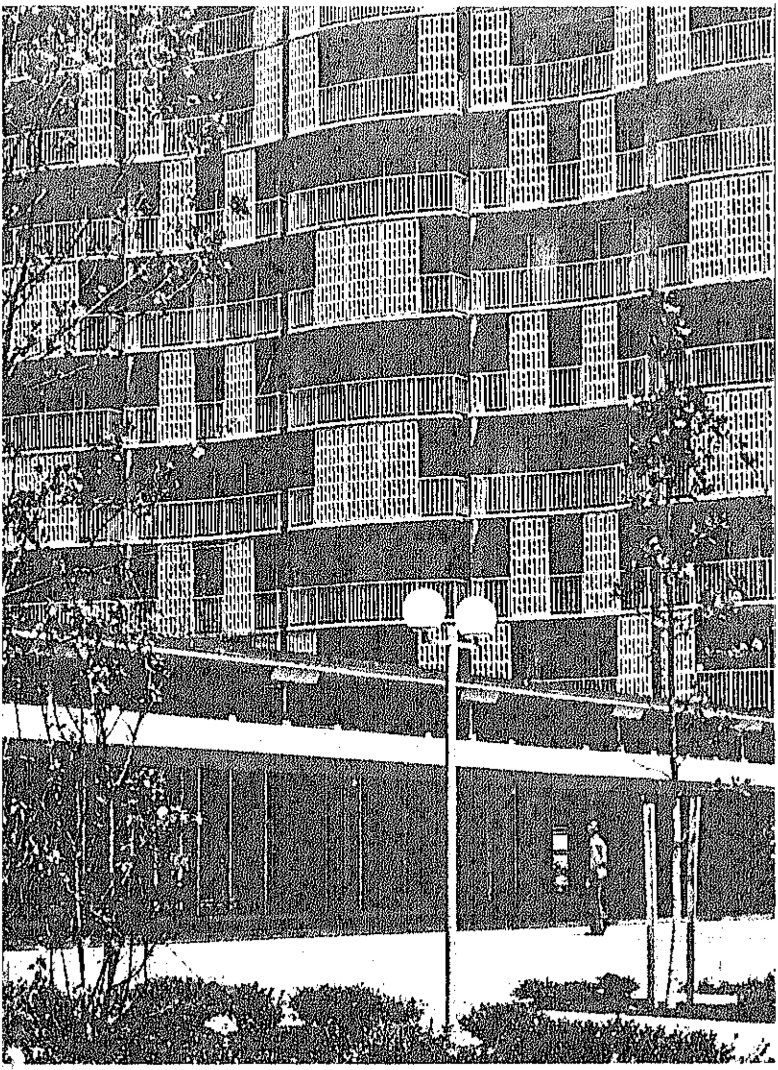
FHA Mortgage Insurance for Urban Renewal



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Robert C. Weaver, Secretary
FEDERAL HOUSING ADMINISTRATION

"The Federal program of urban renewal is today our principal instrument for restoring the hope and renewing the vitality of older cities and wornout neighborhoods."

"Even some areas now classed as slums can be made decent places to live with intensive rehabilitation."

Lyndon B. Johnson

FOREWORD

As one means of helping to wipe out slums and prevent neighborhood blight, the Federal Housing Administration insures mortgage loans through a special program tailored for use in designated urban renewal areas and code enforcement areas.

This program is operated under Section 220 of the National Housing Act. It is used to finance both the rehabilitation of existing housing and the building of new housing in urban renewal areas and in areas approved for Federal financial assistance for concentrated code enforcement. It includes home mortgage provisions that apply to properties with 1-11 family units, and multifamily project provisions that apply to properties with two or more units. Projects of 2-11 family units can be financed either way.

GENERAL PROVISIONS OF SECTION 220

Mortgage loans insured by FHA under this section may be used to restore existing homes and multiunit projects, as well as to build new ones.

Improvement loans to be used for major improvements to homes and multiunit structures can be insured under Section 220(h).

The Section 220 program applies to dwellings in urban renewal areas of cities found to be legally and financially able to carry out approved urban renewal plans. This finding is made by the Department of Housing and Urban Development. In such cities the program also applies to dwellings in areas for which there is an approved concentrated code enforcement program.

The urban renewal plan spells out what is to be done with the blighted area, how these things will be done, and what assurances there are that the plan will be carried out. The plan could call for clearance and redevelopment only, or it could combine clearance and redevelopment with property conservation and rehabilitation, or it could be limited in scope to code enforcement. Section 220 is geared to help in all these actions.

Mortgage terms under this section are more liberal than those under FHA's standard home and project mortgage insurance programs. FHA values the property on the basis of plans for the area as redeveloped rather than the value of the property in the area "as is." Also, it bases the mortgage amount for new construction on estimated replacement cost rather than on appraised value. Thus, Section 220 allows for larger loans and smaller outlays of owner capital than would be the case under most other financing plans.

These loans can be used by investors, builders, and developers, and by individual home and apartment owners, to upgrade housing. Those who want to finance through Section 220 must check with the local public agency (LPA) handling the urban renewal program, to see that the property and their proposals for it conform to LPA and FHA rules for the sort of undertaking planned.

The loans are made by banks, savings and loan associations, mortgage companies, and other FHA-approved private lenders.

MORTGAGES FOR REHABILITATION

Many rundown dwellings in urban renewal areas are sound in structure and can be brought up to modern living standards. Section 220 mortgages may be used for the rehabilitation of properties owned or to be acquired. The improvements must be of a kind to keep the properties from deteriorating or to increase their value.

When completed, the housing must meet FHA's minimum property standards for rehabilitation construction. These standards are more flexible than those FHA applies to new construction. There can be no compromise, however, with respect to standards that affect the health, safety, and welfare of the intended occupants.

PROVISIONS FOR REHABILITATION MORTGAGES

NUMBER OF UNITS	HOME MORTGAGE	MULTIFAMILY PROJECT MORTGAGE
	1-11	2 or more
Type of Structure	Detached, semi-detached, row-house, multifamily structure.	Detached, semi-detached, row-house, multifamily structure.
Maximum Dollar Amount	Occupant mortgagor; $30,000 for 1-family dwelling; $32,500 for 2 family or 3-family; $37,500 for 4-family; $37,500 plus $7,000 per family unit over 4. Non-occupant mortgagor: 85% of above amounts. (Same amount as occupant mortgagor if 15% of mortgage put in escrow pending sale of property to acceptable occupant mortgagor within 18 months). If property is held for rent, 93% of above amounts.	Private mortgagor-$30 million; public mortgagor-$50 million. Walk-up: $9,000 per unit without bedroom; $12,500 with 1 bedroom; $15,000 with 2 bedrooms ($18,750 if no more than 5 units in project); $18,500 with 3 bedrooms ($23,100 if no more than 5 units in project); $21,000 with 4 or more bedrooms ($26,250 if no more than 5 units in project). Elevator: $10,500 per unit without bedroom; $15,000 with 1 bedroom; $18,000 with 2 bedrooms: $22,500 with 3 bedrooms; $25,500 with 4 or more bedrooms. High cost areas: Up to 45% increase in per-unit amounts. $12,500 per family unit when project comprises one family detached dwellings designed to meet MPS for Low Cost Housing.
	97% of $15,000 of estimated rehabilitation cost and estimated value before rehabilitation, plus 90% of the sum of such estimates between $15,000 and $20,000 and 80% of such estimates above $20,000 (85% for a qualified veteran); or estimated cost of rehabilitation, plus amount required to refinance outstanding debt secured by property.	Property held in fee: FHA-estimated rehabilitation cost. Property to be acquired: 90% of estimated rehabilitation cost plus 90% of actual value before rehabilitation, but not in excess of fair market value. Property to be refinanced: Estimated rehabilitation cost plus existing indebtedness, up to 90% of estimated value before rehabilitation.

PROVISIONS FOR IMPROVEMENT LOANS--Continued

Number of Units	HOME MORTGAGE	MULTIFAMILY PROJECT MORTGAGE
	1 - 11	2 or more
Maximum Loan Ratio	On dwelling completed less than 1 year and not approved for mortgage insurance before construction started: 90% of $20,000 of estimated rehabilitation cost, plus estimated value before rehabilitation, and 80% (85% for a qualified veteran) of the sum of such estimates above $20,000; or estimated rehabilitation cost and amount required to refinance existing indebtedness against the property. For non-occupant mortgagor: 85% of above amounts, except when escrow commitment procedure used. If property is held for rent, 93% of above amounts.	
Maximum Mortgage Maturity	30 years, but not over 3/4 of remaining economic life of structure.	Satisfactory to FHA Commissioner; usually 40 years.
Current Maximum Interest Rate	6%	6%
FHA Mortgage Insurance Premium	1/2 of 1%	1/2 of 1%
Exterior Land Improvements	Included in mortgage amount.	Included in mortgage amount. Unusual improvements may be included without being computed as part of per-unit cost limit.
Non-dwelling Facilities	May be included in mortgage, but any non-residential use of the property must be subordinate to its residential use and character.	Mortgage may include facilities FHA deems desirable and consistent with the urban renewal plan and with the project's economic feasibility.

PROVISIONS FOR REHABILITATION MORTGAGES--Continued

Number of Units	HOME MORTGAGE	MULTIFAMILY PROJECT MORTGAGE
	1 - 11	2 or more
Security Requirements	A first mortgage on a form prescribed by FHA.	A first mortgage on a form prescribed by FHA.
Builder's Fee	Reasonable and typical in area--allowed in cost.	10% included in cost certification (builder's and sponsor's profit and risk allowance).
Allowable Charges	Application fee, $35. Lender's service charge, (1) $20 or 1% of original loan principal, or, (2) if lender makes disbursements and inspections during construction on behalf of the borrower under the mortgage to be insured, $50 or 2 1/2% of the portion of principal that is to be applied to rehabilitation + 1% of remainder of principal. Customary closing costs. Reasonable discount if refinancing a mortgage on a property owned by the mortgagor.	Lenders initial service charge, 2%; application fee and commitment fee together, $3 per $1,000; inspection fee, $5 per $1,000; customary closing costs; reasonable discount if refinancing a mortgage on property owned by the mortgagor.
Cost Certification Requirement	None	Formal cost certification, except that on loans of $200,000 or less insured upon completion, certificate by borrower is acceptable.
Prior FHA Approval of Construction	Required if maximum terms are to be obtained.	Required
Inspection Requirement	Inspection suited to amount and extent of work.	Inspection suited to amount and extent of work.
Adjusted Premium Charge upon Prepayment or Termination of Insurance	Not over 1%, if any.	2% of original face amount of mortgage within 5 years of initial endorsement, and 1% thereafter.

A single home in New Haven, Connecticut before rehabilitation

The same home as it appeared after rehabilitation

MORTGAGES FOR NEW CONSTRUCTION

Section 220 mortgages may be used for the building of new dwellings - homes or apartments - that are located in an urban renewal area, where new housing can be put up on land that is cleared for redevelopment.

The home and multifamily mortgage provisions for new construction differ from those for rehabilitation only in the following respects:

Maximum Loan Ratio

HOME MORTGAGE

Construction proposed, or completed more than 1 year, 97% of first $15,000 of FHA-estimated replacement cost, plus 90% of next $5,000, plus 80% (85% for a qualified veteran) of such cost over $20,000.

On dwelling not approved for mortgage insurance before the beginning of construction: 90% of $20,000 of estimated replacement cost, plus 80% (85% for a qualified veteran) of cost above $20,000.

For non-occupant mortgagor: 85% of above amounts. (Same amount as occupant mortgagor if 15% of mortgage put in escrow pending sale of property to acceptable occupant mortgagor within 18 months.) If property is held for rent, 93% of above amounts.

MULTIFAMILY PROJECT MORTGAGE

90% of FHA-estimated replacement cost.

For project under construction: 90% of estimated value when completed.

Maximum Mortgage Maturity

HOME MORTGAGE

30 years (35 years in certain circumstances).

Allowable Charges

HOME MORTGAGE

Application fee, $45; lender's service charge, $50 or 2-$\frac{1}{2}$% of original principal if lender makes disbursements and inspections during construction on behalf of the borrower under the mortgage to be insured; customary closing costs; reasonable discount when mortgagor is either operative or owner-occupant builder.

Cost Certification Requirement

MULTIFAMILY PROJECT MORTGAGE

Formal Certification.

Inspection Requirements

HOME MORTGAGE

At least 3 FHA inspections if maximum ratio of loan to replacement cost is desired.

IMPROVEMENT LOANS

Loans insured under Section 220(h) may be used to finance improvements that will preserve and add to the basic livability and utility of salvable homes and apartment structures in urban renewal areas. These are supplemental loans for the rehabilitation of properties that may or may not already carry a mortgage.

PROVISIONS FOR IMPROVEMENT LOANS

Number of Units	HOME MORTGAGE	MULTIFAMILY PROJECT MORTGAGE
	1 - 11	2 or more
Type of Structure	Detached, semi-detached, row-house, multifamily structure	Detached, semi-detached, row-house multifamily structure.
Minimum Age of Structure	10 years (unless loan for major structural improvements, or to correct defects not known at time of structure's completion or caused by casualty)	10 years (unless loan for major structural improvements, or to correct defects not known at time of structure's completion or caused by casualty)
Maximum Loan Amount	Whichever is less; FHA estimate of cost of improvement, or $10,000 per family unit. The amounts may be increased up to 45% in high-cost areas. Amount of loan added to outstanding indebtedness cannot exceed amount insurable under Section 220 rehabilitation mortgage, or $40,000.	Whichever is less: FHA estimate of cost of improvements or $10,000 per unit. These amounts may be increased up to 45% in high-cost areas. Amount of loan added to outstanding indebtedness cannot exceed amount insurable under Section 220 rehabilitation mortgage.

PROVISIONS FOR IMPROVEMENT LOANS--Continued

Number of Units	HOME MORTGAGE	MULTIFAMILY PROJECT MORTGAGE
	1 - 11	2 or more
Maximum Mortgage Maturity	20 years, but not over 3/4 of remaining economic life of structure.	20 years, but not over 3/4 of remaining economic life of structure.
Maximum Interest Rate	6%	6%
FHA Mortgage Insurance Premium	1/2 of 1%	1/2 of 1%
Exterior Land Improvements	Included in loan amount.	Included in loan amount.
Non-dwelling Facilities	May be included in loan, but any non-residential use of the property must be subordinate to its residential use and character.	Loan may include facilities FHA deems desirable and consistent with the urban renewal plan and with the project's economic feasibility.
Security Requirements	A lien against the property on a form prescribed by FHA.	A lien against the property on a form prescribed by FHA.
Builder's Fee	Reasonable and typical in area--allowed in cost.	Reasonable and typical in area--allowed in cost.
Allowable Charges	Application fee, $20; lender's service charge, $50 or 2 1/2% of original principal if lender makes disbursements and inspections during construction--otherwise, $20 or 1% of principal; customary closing costs.	Application fee $1.50 per $1,000 of face amount of loan; commitment fee, $1.50 per $1,000; inspection fee, $5 per $1,000; lender's service charge, 2% of original principal; customary closing costs.
Cost Certification Requirement	On 1- to 4-unit dwellings, none. On 5- to 11-unit dwellings, certification of borrower.	Formal cost certification except that on loans of $200,000 or less, insured upon completion, certificate by borrower is acceptable.
Prior FHA Approval of Construction	Required	Required

PROVISIONS FOR REHABILITATION MORTGAGES--Continued

Number of Units	HOME MORTGAGE	MULTIFAMILY PROJECT MORTGAGE
	1 - 11	2 or more
Inspection Requirements	Inspection suited to amount and extent of work.	Inspection suited to amount and extent of work.
Adjusted Premium Charge upon Prepayment or Termination of Insurance.	None	None

Equal Opportunity in Housing

FHA regulations under the President's Executive Order 11063 of November 20, 1962, require that housing provided with FHA assistance be made available without discrimination because of race, color, creed, or national origin.

The regulations prohibit any person, firm, or group receiving the benefits of FHA mortgage insurance or doing business with FHA from practicing such discrimination in lending or in the sale, rental, or other disposition of the property. Violations may result in discontinuation of FHA assistance.

One- or two-family dwellings which have been occupied by the owner are exempt from the regulations; but if the purchaser of such a home wishes to finance it with an FHA-insured mortgage the lender may not refuse to make the loan because of the buyer's race, color, creed, or national origin.

THE FHA IN BRIEF

Since its establishment in 1934, the Federal Housing Administration has written mortgage and loan insurance in a total amount of over $109 billion. This amount covers mortgage insurance on several million homes, on more than a million living units in multifamily projects, and on many millions of property improvement loans. Altogether, FHA has helped between 35 and 40 million families to improve their housing standards and conditions.

Congress provided the FHA mortgage and loan insurance system to help improve housing standards, to promote the use of sound financing methods, and to help keep the mortgage market steady. FHA supports itself through income derived from fees, insurance premiums, and investments. Its insurance reserves are well over a billion dollars.

All loans insured under FHA programs are made by private FHA-approved lenders. FHA does not lend money or build houses.

The first FHA programs dealt with insured home-improvement loans, home-mortgage loans, and rental-housing mortgage loans. Through its 76 field offices FHA now also insures mortgages to develop land and to provide homes for servicemen and their families, housing for people of low and moderate income, housing in urban-renewal areas, housing for the elderly or handicapped, nursing homes, cooperative housing, condominiums, experimental housing, housing at or near military centers; and long-term loans for major home improvements.

FHA has had a marked influence on the location, volume, and kind of housing built in the United States. It has helped to make the low-downpayment, long-term, fully amortized mortgage the standard in mortgage lending.

Time has proved the soundness of the FHA concept. Millions of loans insured by FHA have been made by banks, savings and loan associations, mortgage companies, and other FHA-approved lenders.

'be cover photograph is a view of the entrance to one f three apartment buildings in The Capitol Park - ection 3, a group of high-rise buildings at 101, 103 nd 301 "G" Street, S. W., Washington, D. C. This 'HA insured project received an award of merit.